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FROM USDEL

SUBJECT: CIVAIR NEGOTIATIONS

REF: STATE 75076

1. IN INFORMAL MEETINGS ON SATURDAY AND MONDAY PLUS FORMAL MEETING MONDAY USDEL PURSUED VIGOROUSLY QUESTION OF CHANGES IN ITALIAN INTERMEDIATE POINTS PER REFTEL. ITALDEL RESISTED STRENUOUSLY STATING THAT PACKAGE GIVEN BY ITALDEL LAST THURSDAY WAS FINAL AND COULD NOT BE MODIFIED. SAID ONLY BASIS THAT ITALDEL COULD ACCEPT ANY MODIFICATION IN INTERMEDIATE POINTS WOULD BE FOR USDEL TO ACCEPT SUBSTANTIVE CHANGES IN US INTERMEDIATE POINTS. USDEL STATED WAS PREPARED TO CONSIDER CERTAIN MODIFICATIONS IN US ROUTES SUCH AS DELETING UK ON COMBINATION SERVICES, DELETION OF US SIXTH POINT IN US, ELIMINATION OF PORTUGAL AND IRELAND AS INTERMEDIATE POINTS FOR ALL-CARGO AND BLIND SECTOR RIGHTS ON GERMANY AND SWITZERLAND ALL-CARGO SECTORS. ITALDEL SAID THESE WERE NOT SUBSTANTIVE AND ONLY MODIFICATION WHICH WOULD INTEREST THEM WOULD BE DELETION OF GERMANY AND SWITZERLAND AS ALL-CARGO POINTS. USDEL SAID IT APPEARED TWO SIDES HAD REACHED AN IMPASSE ON THIS ISSUE AND ALL WE COULD DO WOULD BE TO REPORT SITUATION TO WASHINGTON. IN PASSING, ITALIAN CHAIRMAN SAID US REALLY HAD NOTHING TO WORRY ABOUT ON INTERMEDIATE BECAUSE ITALY WOULD NEVER BE

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ABLE TO GET MORE THAN CHICAGO/LOS ANGELES FROM CANADA OR ONE POINT IN US FROM UK.

2. IN LATER CONVERSATION CONCERNING ALL-CARGO POINTS ITALDEL AGAIN REPEATED STATEMENT THAT THURSDAY PACKAGE REPRESENTED FINAL OFFER. IN FACT ITALIAN CHAIRMAN SAID HE HAD EXCEEDED HIS INSTRUCTIONS AND HIS FREEDOM OF ACTION WAS NOW EXTREMELY LIMITED. US CHAIRMAN SAID IT WAS NECESSARY TO OBTAIN HIGHER LEVELS FOR ALL-CARGO SERVICES. USDEL WAS AWARE THAT ALITALIA WAS NOT FUNDAMENTALLY OPPOSED TO THIS BECAUSE OF CONVERSATIONS WITH ALITALIA MEMBERS. ITALIAN CHAIRMAN SAID ITALIAN GOVERNMENT HAD DIFFERENT VIEW. IN END US CHAIRMAN SAID WOULD CHECK OUT WITH WASHINGTON AS FINAL EFFORT TO REACH DEAL PROPOSAL TO ACCEPT ITALIAN ROUTE FORMULATION IF ITALIANS COULD GIVE SATISFACTION ON ALL-CARGO LEVELS. SAID US WOULD REQUIRE 15, 15 AND 20. SANTINI SAID IMPOSSIBLE AND HIS POSITION WAS STILL 10, 13, 16. US CHAIRMAN THEN PROPOSED 14, 14, 17 WHICH ITALIAN CHAIRMAN SAID WOULD CONSIDER IF USDEL CONFIRMED ITALIAN ROUTE SCHEDULE AS PROPOSED.

3. ITALDEL INDICATED ACCEPTANCE OF BRITISH SELECTION FORMULA ON WEST COAST. SELECTION FORMULA FOR ITALIAN INTERMEDIATES AND US ALL-CARGO POINT IS ITALY STILL OPEN.

4. LANGUAGE FOR ADDITIONAL POINT AND MULTIPLE DESIGNATION OCFORMULATION HAVE BEEN SUBJECT TO CONSIDERABLE CHANGE SINCE LAST THURSDAY. ITALIANS ARE PREPARED TO ACCEPT SAME FORMULATION FOR MULTIPLE DESIGNATION AND ROUTES. ITALIANS SAY PREPARED TO CONSIDER FOLLOWING FORMULATION UNDER ONE CONDITION:

"FOOTNOTE

FLIGHT WILL SERVE ONE OF THE FOLLOWING AS THE LAST POINT OF DEPARTURE OR FIRST POINT OF ARRIVAL:

FOR COMBINATION SERVICES: (12 POINTS LISTED)

FOR ALL-CARGO SERVICES: (6 POINTS LISTED)

THE AIRLINE OR AIRLINES OF THE UNITED STATES (ITALY) MAY

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SERVE ADDITIONAL POINTS AS THE LAST POINT OF DEPARTURE OR FIRST POINT OF ARRIVAL BUT BEFORE SUCH SERVICES COMMENCE THE TWO PARTIES WILL CONCLUDE APPROPRIATE CONSULTATIONS. THE PURPOSE OF SUCH CONSULTATIONS WILL BE SOLELY TO AGREE WHETHER SUCH SERVICES WOULD IMBALANCE THE ECONOMIC BENEFITS AVAILABLE UNDER THE ROUTE SCHEDULE IN FAVOR OF THE UNITED STATES (ITALY), AND IF THIS IS THE CASE, TO DETERMINE APPROPRIATE COMPENSATION FOR ITALY (UNITED STATES) TO RESTORE A BALANCE OF ECONOMIC BENEFITS."

5. ABOVE FORMULATION CONDITIONED ON A STATEMENT IN SIDE AGREEMENT ALONG FOLLOWING LINES:

"IT IS THE UNDERSTANDING OF THE TWO DELEGATIONS THAT THE CONSULTATION REFERRED TO IN THE FOOTNOTE TO THE UNITED STATES (ITALY) ROUTE SCHEDULE WILL NOT BE DEEMED CONCLUDED AND SERVICES WILL NOT COMMENCE UNTIL AGREEMENT IS REACHED ON COMPENSATION, IF ANY."

ITALDEL SAID NEEDED THIS LANGUAGE BECAUSE THEY WERE NOT ENTIRELY CLEAR THAT CONSULTATIONS WILL BE CARRIED ON UNTIL AGREEMENT REACHED, ALTHOUGH USDEL POINTED OUT THAT LANGUAGE IN PARA 4 ABOVE APPEARS COVER THIS POINT QUITE ADEQUATELY.

6. USDEL THEN TURNED TO QUESTION OF VETO AND SAID THE US POSITION WAS BASED ON THE ASSUMPTION THAT THE CONSULTATIONS WOULD BE CARRIED OUT IN GOOD FAITH AND THAT THE SOLE PURPOSE OF THE CONSULTATIONS WOULD BE TO DETERMINE APPROPRIATE COMPENSATION AND NOT TO EXERCISE A VETO POWER. ITALDEL SAID AGREED WITH THIS. IN SUBSEQUENT INFORMAL DISCUSSIONS BETWEEN DELEGATION MEMBERS THERE WAS SOME INDICATION THAT ITALIANS MIGHT ACCEPT A WRITTEN STATEMENT ON VETO POWER TO BE INCLUDED IN SIDE UNDERSTANDING. BECAUSE OF THIS US DEL SUGGESTS WE MIGHT ADD SENTENCE IN SIDE AGREEMENT ALONG FOLLOWING LINES:

"IT IS THE FURTHER UNDERSTANDING OF THE TWO DELEGATIONS THAT THE PURPOSE OF THE AFORESAID CONSULTATIONS IS NOT TO EXERCISE AN ARBITRARY VETO BUT ONLY TO DETERMINE APPROPRIATE COMPENSATION, IF ANY."

WE WOULD NOT SUGGEST THIS BE MAKE OR BREAK ISSUE, HOWEVER.

7. USDEL NOW OF VIEW THAT WE ARE VERY CLOSE TO AN AGREEMENT AND NEGOTIATIONS COULD BE CONCLUDED BY POSSIBLY WEDNESDAY. IN SUCH CASE, QUESTION ARISES AS TO PRESS TREATMENT TO BE

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ACCORDED CONCLUSION OF AGREEMENT. NORMAL PRACTIVE IS TO ISSUE ROUTINE PRESS RELEASE ALONG LINES RECENT PORTUGUESE ARRANGEMENTS WITHOUT CONTAINING ANY SUBSTANTIVE INFORMATION. WASHINGTON SHOULD CONSIDER WHETHER CIRCUMSTANCES SURROUNDING CURRENT NEGOTIATIONS ARE SUCH THAT DIFFERENT TREATMENT IS APPROPRIATE IN THIS CASE.
MARTIN

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